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December 17, 2003

VIA HAND DELIVERY

Deborah Tate, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219

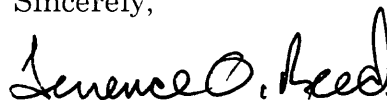
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T.R.A. DOCKET ROOM

Re: Petition of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc. and Atmos Energy Corporation for a Declaratory Ruling regarding the Collectibility of the Gas Cost Portion of Uncollectable Accounts under the Purchase Gas Adjustment ("PGA") Rules
Docket No. 03-00209

Dear Chairman Tate:

Enclosed are the original and thirteen (13) copies of Petitioners' Post Hearing Brief.

Sincerely,



Terrence O. Reed

TOR/nmg

Enclosures

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

PETITION OF CHATTANOOGA GAS
COMPANY, NASHVILLE GAS COMPANY,
A DIVISION OF PIEDMONT NATURAL
GAS COMPANY, INC. AND UNITED
CITIES GAS COMPANY, A DIVISION
OF ATMOS ENERGY CORPORATION,
FOR A DECLARATORY RULING
REGARDING THE COLLECTIBILITY
OF THE GAS COSTS PORTION OF
UNCOLLECTIBLE ACCOUNTS UNDER
THE PURCHASED GAS ADJUSTMENT
("PGA") RULES

DOCKET NO. 03-00209

PETITIONERS' POST HEARING BRIEF

Upon leave of the Tennessee Regulatory Authority ("Authority"), Petitioners Chattanooga Gas Company ("Chattanooga Gas"), Nashville Gas Company, a Division of Piedmont Gas Company, Inc. ("Nashville Gas"), and Atmos Energy Corporation ("Atmos") (collectively, the "Petitioners") submit their joint post-hearing brief in support of their motion for summary judgment that was heard before the Authority on December 11, 2003.

Petitioners contend that there were no new issues raised during the oral argument on the motions for summary judgment and that the parties have thoroughly briefed all of the existing issues. Therefore, Petitioners' post-hearing brief will only address the issues specifically raised by the Directors during the hearing, and as a result, Petitioners' brief will be in a question and answer format.

Question 1: For what purpose did the Petitioners point out the modification of the formula section in the PGA Rule?

Petitioners' Response: Petitioners referenced this section of the Rule because the Consumer Advocate & Protection Division ("CAPD") indicated in its brief in support of summary judgment that Petitioners were asking for a modification of the formulas. Petitioners' requested relief does not require a modification of the PGA formula. However, even if it did require a modification, the TRA has the authority to modify the formulas pursuant to the existing PGA Rule without conducting a Rulemaking. Petitioners cite the modification of the formula section as authority for this proposition. See TRA Rule 1220-4-7-.03.

Irrespective to the CAPD's assertion to the contrary and as stated in Rule 1220-4-.03(1)(a)(4), the formulas set forth in the Rules are not designed for use with two-part, demand/commodity rate schedules. See T.R.A. Rule 1220-4-.03(1)(a)(4) ("The formulas set forth above are not designed for use with two-part demand/commodity rate schedules")

Question 2: How was the order in Docket 01-00802 implemented?

Petitioners' Response: Page 6 of the Order states as follows:

Each of the Applicants is allowed to defer the gas portion of the excess of its bad debt expense for its fiscal period ending in 2001 over the gas cost portion of uncollectible account expenses currently allowed in the Applicant's base rates.

Order in Docket 01-00802, pg. 6.

The gas costs were placed in the deferred gas costs account. Petitioners are requesting the same relief in this Docket except on an ongoing basis. Petitioners are merely seeking the difference between the gas costs portion of uncollectible accounts incorporated in the base rates and the actual amount of gas cost portion of the uncollectible accounts. This will permit Petitioners to collect 100% of their respective gas costs as anticipated by the PGA rules.

Question 3: What action did the Authority take with respect to including footnote 9 on page 5 in the Order contained in Docket 01-00802?

Petitioners' Response: Footnote 9 on page 5 of the Order indicates that the Authority relied on the content and intent of the PGA Rules when it determined that the gas costs portion of uncollectible accounts is recoverable through the PGA Rules. Footnote 9 is a cite to the section of the Rule which sets forth the intent of the PGA Rule. This indicates that Rule 1220-4-7-.02 allows for the recovery of the uncollectible portion of gas costs through the PGA Rules. The crucial holding of Docket 01-00802, including Footnote 9, is that the Authority allowed the recovery that was requested because it was consistent with the PGA Rule. The Authority supports this holding by quoting the Rule that provides that –

These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in a

timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the company does not over-collect or under-collect the gas costs from its customers.

T.R.A. Rule 1220-4-7-.02(1).

Question 4: How do you reconcile the language in Footnote 9 of the Order in Docket 01-00802 with the language in the order which provides that “this measure should not be understood, however, to reflect the ongoing policy of the authority, but is adopted for this one instance only in response to the extraordinary circumstances surrounding the winter of 2000-2001.”

Petitioners’ Response: In Docket 01-00802, the Petitioners were requesting the relief that was granted by the Authority because bad debt had dramatically increased because of the high gas prices at that time and the Authority had requested that the gas companies be more lenient with their cut-off policies. Although the Authority stated that its ruling was to apply in that specific instance, the significance of the ruling is that the Authority acted pursuant to the PGA Rule without having to waive the Rule or institute a Rule-making proceeding. Petitioners cite this Docket for this proposition. The Rule allowed for the recovery that was granted by the Authority, which is the same relief that Petitioners are requesting in this case, except on an ongoing basis.

Petitioners are presently before the Authority requesting that it change its practice since current circumstances require the change. There

has been extreme volatility in the gas prices since the Petitioners last filed their rate cases. This makes it difficult to accurately estimate the bad debt allowances in base rates. Yet, the intent of the PGA Rule is to allow recovery of 100% gas costs. For example, the allowance for uncollectible accounts in the base rates of Chattanooga Gas is approximately \$138,000, but the actual uncollected portion of the gas costs is approximately \$500,000. See Archie Hickerson's Affidavit and attachments thereto. Uncollectible accounts tend to follow the patterns of gas prices. See id.

The intent of the PGA Rules is that the gas companies recover 100 percent of their gas costs, but because of the volatility of the gas prices, the companies are not recovering 100% of their gas costs via the base rates. Petitioners are requesting that the Authority allow them to recover all of their gas costs in a manner that more accurately corresponds to the actual gas costs expense. The most efficient and effective manner in which to do this is through the PGA Rule.

Question 5: Does the section of the PGA Rule that addresses a modification of formulas only apply to the two-part demand/commodity rate schedules?

No. The modification provision is not limited to the two-part demand/commodity rate schedules. In fact, the language of Rule 1220-04-07-.03(4) specifically states that –

The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified form [sic] time to time to carry out the intent of these PGA Rules.

Question 6: Do the gas companies have a right under the PGA Rules to recover 100 percent of their gas costs?

Petitioners' Response: Yes. The Rules clearly set forth the intent that the companies not collect more than 100 percent or less than 100 percent of their gas costs. See T.R.A. Rule 1220-4-7-.02. The parties agree that PGA Rule 1220-4-7.02 allows gas companies to recover “the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.” Id. (emphasis added) The term “total” in the Rule is a synonym for “100 percent”. Gas Costs are defined in Rule 1220-4-7-.01(1) and the “Gas Costs” portion of uncollectible accounts is still “Gas Costs”.

Question 7: Did the Order in Docket 01-00802 effectively waive the PGA Rule?

Petitioners' Response: No. The Petition in Docket 01-00802 requested that the Authority simply defer the difference between the gas cost portion of the actual net write-offs for each gas company's current fiscal period and the gas cost portion of uncollectible account expenses currently

allowed in their respective base rates. This is all that the Authority's Order purports to effectuate, and Footnote 9 on page 5 of the Order in Docket 01-00802 supports this action without the necessity of a waiver. In fact, nowhere in the Petition or the Order is there any reference to a waiver, and the CAPD acknowledges this fact. See Transcript of Excerpt of Dec. 11, 2003 Proceedings, pg. 9.

The Authority's order was clear and cited authority for its decision. The CAPD's argument that there was an effective waiver is completely unfounded. If the Authority were granting a waiver, it could have cited Rule 1220-1-1-.05 as the authority for doing so.

Question 8: Since the Authority considered the WNA to be a margin loss and therefore concluded that it was recoverable under the PGA Rule, would the same logic apply if the Authority found the gas portion of uncollectible accounts was a "gas cost"?

Petitioners' Response: No. Gas Costs are clearly included in the definition of what should be recovered through the PGA. The WNA is an example of other costs that have been recovered through the PGA. The point being that if some non-gas costs are recoverable through the PGA, then surely Gas Costs are recoverable.

Question 9: Is it standard under any method of dealing with uncollectibles for the gas company to require other consumers to pay the bills of those consumers who did not pay their respective bills?

Petitioners' Response: Yes. The amount of the estimate for uncollectibles included in base rates is passed on to all of the gas companies' consumers. Sometimes the estimate results in an under collection and sometimes it results in over collection. It is a systematic write-off of the expenses every month. Recovering these gas costs through the PGA would make the amount recovered more accurate.

Question 10: Does the Authority have discretion to determine the best and most efficient manner in which to proceed with this matter other than mandating a Rulemaking?

Petitioners' Response: Yes. The parties agree that the Authority is not limited to a Rulemaking and has full discretion to determine the best manner in which to proceed with this matter. See Transcript of Excerpt of Dec. 11, 2003 Proceedings, pg. 11.

Question 11: What authority did the TRA exercise in order to grant the relief in Docket 01-00802?

Petitioners' Response: The Authority granted a deferral under the PGA Rule 1220-4-7-.02, without waiving the Rule. In Docket 01-00802, the

Applicants did not request that the Authority waive the Rule. The gas companies specifically amended their Application to request a deferral under the PGA Rule. As the CAPD points out, “It’s nowhere stated in the actual order that it is a waiver, rather the language used is a deferral.” Transcript of Excerpt of Dec. 11, 2003 Proceedings, pg. 12. In addition, the Authority was not required to act under a special order.

Question 12: How do you explain the language in the Order in Docket 01-00802 that reads “This measure is consistent with the intent of Authority Rule 1220-4-7-.02, which allows for recovery of gas costs”?

Petitioners’ Response: This language clearly allows gas companies to defer the gas portion of their bad debt expense that is in excess of the gas cost portion of uncollectible accounts allowed in the Applicants’ base rates. The effect of this language is precedent that the Authority has the ability to allow Petitioners to recover Gas Costs included in uncollectible accounts through the PGA Rules without a waiver of the Rules or a Rulemaking.

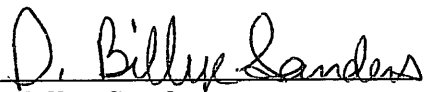
Despite the CAPD’s assertion to the contrary, the Order in Docket 01-00802 never references that the Authority is waiving the Rules. The CAPD’s assertion to this effect is groundless speculation. The Order reflects that the Authority acted pursuant to the Rules.

Question 13: If uncollectibles can be classified as gas costs under the PGA Rule, what prevents other expenses from also being classified as gas costs and recovered under the PGA Rule?

Petitioners' Response: The Authority's gate-keeping function serves as a limitation on which costs can properly be classified as gas costs and thus recoverable under the PGA Rules. The Authority is guided by the definition of "gas cost" contained in Rule 1220-4-7-.01, which is very broad. The Authority would decide in subsequent proceedings whether other costs would be recoverable under the PGA Rules. In this case, the Authority has previously and properly ruled that the particular costs at issue are Gas Costs and are recoverable under the PGA Rule. Petitioners are not advocating a broadening the definition of "gas cost" but simply applying the definition set forth in the Rule. It should also be noted that current gas costs are close to, if not higher, than costs that gas companies were incurring in 2001.

Respectively submitted this 17th day of December 2003.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been
mailed, postage prepaid to the following this 17th day of December, 2003.

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